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Congressional Testimony

Means-Tested Welfare Spending: Past and Future Growth

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Introduction

The U.S. welfare system may be defined as the total set of government programs—federal and state—that are designed explicitly to assist poor and low-income Americans. Nearly all welfare programs are individually means-tested.[1] Means-tested programs restrict eligibility for benefits to persons with non-welfare income below a certain level. Individuals with non-welfare income above a specified cutoff level may not receive aid. Thus, Food Stamp and Temporary Assistance to Needy Families (TANF) benefits are means-tested and constitute welfare, but Social Security benefits are not.

The current welfare system is highly complex, involving six departments: HHS, Agriculture, HUD, Labor, Treasury, and Education. It is not unusual for a single poor family to receive benefits from four different departments through as many as six or seven overlapping programs. For example, a family might simultaneously receive benefits from: TANF, Medicaid, Food Stamps, Public Housing, WIC, Head Start, and the Social Service Block Grant. It is therefore important to examine welfare holistically. Examination of a single program or department in isolation is invariably misleading.

The Cost of the Welfare System

The federal government currently runs over 70 major interrelated, means-tested welfare programs, through the six departments mentioned above. State governments contribute to many federal programs, and some states operate small independent programs as well. Most state welfare spending is actually required by the federal government and thus should considered as an adjunct to the federal system. Therefore, to understand the size of the welfare state, federal and state spending must be considered together. (A list of individual welfare programs is provided in Appendix B.)

Total federal and state spending on welfare programs was $434 billion in FY 2000. Of that total, $313 billion (72 percent) came from federal funding and $121 billion (28 percent) came from state or local funds. (See Chart 1.)

Welfare spending is so large it is difficult to comprehend. On average, the annual cost of the welfare system amounts to around $5,600 in taxes from each household that paid federal income tax in 2000. Adjusting for inflation, the amount taxpayers now spend on welfare each year is greater than the value of the entire U.S. Gross National Product at the beginning of the 20th century.

[1] A very small number of the programs listed in Appendix B are targeted to low income communities rather than low income individuals. While such programs are not formally means-tested, they should be considered part of the overall welfare system. Only a small fraction of aggregate welfare spending is provided through such programs.

The combined federal and state welfare system now includes cash aid, food, medical aid, housing aid, energy aid, jobs and training, targeted and means-tested education, social services, and urban and community development programs.[2] As Table One shows, in FY2000:

- Medical assistance to low income persons cost $222 billion or 51 percent of total welfare spending.
- Cash, food and housing aid together cost $167 billion or 38 percent of the total.
- Social Services, training, targeted education, and community development aid cost around $47 billion or 11 percent of the total.

[2] Appendix B provides a list of the major federal and state welfare programs covered in this testimony.

Roughly half of total welfare spending goes to families with children, most of which are single parent households. The other half goes largely to the elderly and to disabled adults.

The Growth of Welfare Spending

As Chart 2 shows, throughout most of U.S. history welfare spending remained low. In 1965 when Lyndon Johnson launched the War on Poverty, aggregate welfare spending was only $8.9 billion. (This would amount to around $42 billion if adjusted for inflation into today's dollars.)

Since the beginning of the War on Poverty in 1965 welfare spending has exploded. The rapid growth in welfare costs has continued to the present.

- In constant dollars, welfare spending has risen every year but four since the beginning of the War on Poverty in 1965;
- As a nation, we now spend ten times as much on welfare, after adjusting for inflation, as was spent when Lyndon Johnson launched the War on Poverty. We spend twice as much as when Ronald Reagan was first elected.
- Cash, food, housing, and energy aid alone are nearly seven times greater today than in 1965, after adjusting for inflation;
- As a percentage of Gross Domestic Product, welfare spending has grown from 1.2 percent in 1965 to 4.4 percent today.

Some might think that this spending growth merely reflects an increase in the U.S. population. But, adjusting for inflation, welfare spending per person is now at the highest level in U.S. history. In constant dollars, it is seven times higher than at the start of the War on Poverty in the 1960's.

Total Cost of the War on Poverty

The financial cost of the War on Poverty has been enormous. Between 1965 and 2000 welfare spending cost taxpayers $8.29 trillion (in constant 2000 dollars). By contrast, the cost to the United States of fighting World War II was $3.3 trillion (expressed in 2000 dollars). Thus, the cost of the War on Poverty has been more than twice the price tag for defeating Germany and Japan in World War II, after adjusting for inflation.

Welfare Spending in the Nineties

Welfare spending has continued its rapid growth during the last decade. In nominal dollars (unadjusted for inflation), combined federal and state welfare spending doubled over the last ten years. It rose from $215 billion in 1990 to $434 billion in 2000. The average rate of increase was 7.5% per year. Part of this spending increase was due to inflation. But, even after adjusting for inflation, total welfare spending grew by 61 percent over the decade.

As Chart 2 shows medical spending (mainly in the Medicaid program) grew most rapidly during the 1990's, but welfare cash, food, and housing spending grew as well. Adjusting for inflation, cash, food and housing assistance is 37 percent higher today than in 1990. However, the growth in these programs has slowed since 1995, increasing no faster than the rate of inflation. This recent slowdown in spending is, in part, the effect of welfare reforms enacted in mid-nineties.

Future Welfare Spending Growth

President George W. Bush's recent budget blueprint does not contain sufficient detail to permit projections of welfare spending program by program.[3] However, the budget blueprint does provide spending projections for two major budget functions which are integral to the welfare system. These budget codes are Income Security (Function Code 600) and Health (Function Code 500). Income Security contains cash welfare, Food Stamps and other food aid, and housing aid.[4] Health (Code 500) contains Medicaid and a few smaller means-tested health programs. Between them, these two budget categories contain about 90 percent of the federal welfare system as it is described in this testimony. (Note: neither category includes Social Security or Medicare.)

President Bush's budget plan allows for spending in Income Security and Health to grow as rapidly or more rapidly than did former President Clinton's FY 20001 budget request. Income Security (Code 600) is scheduled to grow by 24 percent over the next five years. Health (Code 500) is scheduled to grow by 62 percent over five years.[5]

Based on these figures it seems certain that means-tested welfare spending will grow as rapidly under President Bush's first budget request as under Clinton's last. Projected welfare spending figures from Clinton's last budget (FY2001) are provided in Appendix A.[6] These figures show a rapid of growth in welfare spending. (See Chart 3.)[7]

[3] The White House, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*, (Washington, D.C.: U.S. Government Printing Office, 2001)

[4] Income Security (function code 600) contains some non-welfare expenditures, specifically outlays for retired federal employees and other retirement spending. However, the rate of growth of this retirement spending changes little from one year to the next, therefore once the code 600 outlay totals are known one can predict the means-tested component with reasonable accuracy.

[5] The White House, p. 196.

[6] Projected outlay figures taken from Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2001*, (Washington, D.C.: U.S. Government Printing Office, 2000). Table 32-2, pp.352-364.

[7] The outlay figures in Appendix A are less detailed than the past spending figures used in Table 1. This accounts for small discrepancies between the FY2000 figures in Table 1and Appendix A. These minor differences do not appreciably affect the overall analysis.

- Total federal welfare spending is projected to grow from $315 billion in 2000 to $412 billion in 2005: an increase of 31 percent. The annual rate of spending increase is projected at 5.5 percent.

- Federal spending on cash, food, and housing aid is projected to grow from $141 billion to $174 billion: an increase of 23 percent. The annual rate of spending increase would be 4.3 percent, nearly twice the anticipated rate of inflation.

- Together, federal and state welfare spending would rise from around $434 billion in 2000 to $573 billion in 2005.

Again, although we do not yet have program by program spending projections from the Bush administration, the broad budget function figures we do have allow for the same rate of growth in cash, food, and housing as Clinton's plan. Moreover, the Bush figures would permit more rapid growth in health spending. Thus, clearly, President Bush's plan does not require cuts in welfare spending or even a slowdown in the rate of spending growth.

Welfare and Defense

The rapid projected rate of growth of future welfare spending can be illustrated by comparing welfare to defense. The President has promised to make defense spending a priority. Under his budget plan, nominal defense outlays would increase for the first time in a half decade. Defense spending would rise by 17 percent over five years from $299 billion in FY2000 to $347 billion in FY2005. During the same period, however, welfare spending is scheduled to rise by 31 percent. As Chart 4 shows, the gap between welfare and defense spending will actually broaden during this period.

The Effects of Welfare Reform

In 1996, Congress enacted a limited welfare reform; The Aid to Families with Dependent Children (AFDC) program was replaced by the Temporary Assistance to Needy Families (TANF) program. Critically, a certain portion of AFDC/TANF recipients were required to engage in job search, on the job training, community service work, or other constructive behaviors as a condition for receiving aid. The effects of this reform have been dramatic.

- AFDC/TANF caseloads have been cut nearly in half.
- TANF outlays have fallen substantially. (See chart 5.)
- The decline in the TANF caseload has led to a concomitant decline in Food Stamp enrollments and spending.

While critics predicted the reform would increase child poverty, the exact opposite has occurred. Once mothers were required to work or undertake constructive activities as a condition of receiving aid they left welfare rapidly. Employment of single mothers increased substantially and the child poverty rate fell sharply from 20.8 percent in 1995 to 16.3 percent in 2000. The black child poverty rate and the poverty rate for children living with single mothers are both at the lowest points in U.S. history.

In the welfare reform of 1996 all sides came out as winners: taxpayers, society and children. By requiring welfare mothers to work as a condition of receiving aid, welfare costs and dependence were reduced. Employment increased and poverty fell. Moreover, research shows that prolonged welfare dependence itself is harmful to children; reducing welfare use and having working adults in the home to serve as role models for children will improve those children's prospects for success later in life.

The workfare principles of the 1996 reform should be intensified and expanded. Work requirements in TANF should be strengthened. Similar work requirements should be established in the Food Stamp and public housing programs. Finally, because the reform has clearly succeeded in cutting welfare use, TANF outlays should be reduced by 10 percent in future years.

Welfare Spending and the Collapse of Marriage

As noted previously, about half of all means-tested welfare spending is devoted to families with children. Of this spending on children, nearly all goes to single parent families. Chart 6 shows the percent of aid to children in major welfare programs which flows to single parent families. The single parent share is generally well above 80 percent.

Clearly, the modern welfare state, as it relates to children is largely a support system for single parenthood. Indeed, without the collapse of marriage which began in the mid-1960's, the part of the welfare state serving children would be almost non-existent.

The growth of single parent families, fostered by welfare, has had a devastating effect on our society. Today nearly one third of all American children are born outside marriage. That's one out-of-wedlock birth every 35 seconds. Of those born inside marriage, a great many will experience their parents' divorce before they reach age 18. Over half of children will spend all or part of their childhood in never-formed or broken families.

This collapse of marriage is the principal cause of child poverty and a host of other social ills. A child raised by a never-married mother is seven times more likely to live in poverty than a child raised by his biological parents in an intact marriage. Overall, some 80 percent of child poverty in the U.S. occurs to children from broken or never-formed families. In addition, children in these families are more likely to become involved in crime, to have emotional and behavioral problems, to be physically abused, to fail in school, to abuse drugs, and to end up on welfare as adults.

Since the collapse of marriage is the predominant cause of child-related welfare spending, it follows that it will be very difficult to shrink the future welfare state unless marriage is revitalized. Policies to reduce illegitimacy, reduce divorce and expand and strengthen marriage will prove to be by far the most effective means to:

- reduce dependence;
- cut future welfare costs;
- eradicate child poverty; and,
- improve child well-being.

Tragically, current government policy deliberately ignores or neglects marriage. For every $1,000 which government currently spends subsidizing single parents, only one dollar is spent attempting to reduce illegitimacy and strengthen marriage.

Fortunately, President's Bush's budget plan does propose a new program to "promote responsible fatherhood." This proposed program could become the seedbed for a broad array of new initiatives to strengthen marriage. Still, the money requested is pitifully small: only $64 million per year. This amounts to roughly one penny for each one hundred dollars in projected welfare spending. The budget allocation to the new fatherhood program in FY 2002 should be increased fivefold with the funds diverted from TANF outlays. Beyond FY 2000 some 5 to 10 percent of federal TANF funding should be devoted to pro-marriage activities.

Conclusion

When Lyndon Johnson launched the War on Poverty he did not envision an endless growth of welfare spending and dependence. If Johnson returned today to see the size of the current welfare state he would be deeply shocked.

President Johnson's focus was on giving the poor a "hand up" not a "hand out." In his first speech announcing the War on Poverty, Johnson stated, "the war on poverty is not a struggle simply to support people, to make them dependent on the generosity of others." Instead, the plan was to give the poor the behavioral skills and values necessary to escape from both poverty and dependence. Johnson sought to address the "the causes, not just the consequences of poverty."

Today, President Johnson's original vision has been all but abandoned. We now have a clear expectation that the number of persons receiving welfare aid should be enlarged each year, and that the benefits they receive should be expanded. This expectation is clearly reflected in the future spending projections in Appendix A. Any failure to increase the numbers of individuals dependent on government and the benefits they get is regarded as mean spirited.

Yet the expansion of the conventional welfare system is destructive. More than twenty years ago, then President Jimmy Carter stated, "the welfare system is anti-work, anti-family, inequitable in its treatment of the poor and wasteful of the taxpayers' dollars." President Carter was correct, yet today little has changed except that the welfare system has become vastly larger and more expensive.

This expansion of welfare spending has harmed rather than helped the poor. Instead of serving as a short-term ladder to help individuals climb out of the culture of poverty, welfare has broadened and deepened the culture of self-destruction and trapped untold millions in it.

Rather than increasing conventional welfare spending year after year, we should change the foundations of the welfare system. Policy makers should embrace three basic goals.

1. We should seek to limit the future growth of aggregate means-tested welfare spending to the rate of inflation or slower.

2. We should require welfare recipients to perform community service work as a condition of receiving aid along the lines of the TANF program operating in Wisconsin.

3. We should support programs which foster and sustain marriage rather than subsidizing single parenthood. In addition, we should reduce the anti-marriage penalties implicit in the welfare system.

These three goals are synergistic. They will operate in harmony and reinforce each other. In the long run, it will be difficult to control welfare spending merely by cutting funding. Rather, if we change the behaviors of potential recipients we will reduce the need for future aid. As the need for aid diminishes, spending growth will slow and then decline, and the well being of the poor and society as a whole will rise.